

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0288-01
Bill No.: HB 85
Subject: Agriculture and Animals; Energy; Motor Fuel; Revenue Department
Type: Original
Date: March 18, 2011

Bill Summary: This proposal authorizes an income tax credit for taxpayers who use processed biomass engineered fiber fuel.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(Unknown greater than \$22,709)	(Unknown greater than \$35,773)
Total Estimated Net Effect on General Revenue Fund	\$0	(Unknown greater than \$22,709)	(Unknown greater than \$35,773)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0 FTE	1 FTE	1 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Agriculture** assume that there is no fiscal impact from this proposal.

Officials at the **Budget and Planning (BAP)** assume the proposed legislation should not result in additional costs or savings to BAP. This proposal provides a tax credit for purchasing qualified processed biomass engineered fiber fuel. Officials at the DNR suggest this fuel may be similar in nature and usage to wood pellets. However, BAP does not have data on the supply of or demand for wood pellets in MO. This proposal will reduce general and total state revenues by an unknown amount.

Officials from the **Department of Revenue (DOR)** state the proposal begins January 1, 2012, and is a tax credit for using processed biomass engineered fiber fuel. The credit can not exceed the state tax liability and is not refundable, nor can it be transferred, sold or assigned, but it can be carried forward four subsequent years.

The credit will be based on the following percentages:

- The year the fuel was purchased and used: 30%
- The 2nd year the fuel was purchased and used: 25%
- The 3rd year the fuel was purchased and used: 20%
- The 4th year the fuel was purchased and used: 15%
- The 5th year the fuel was purchased and used: 10%
- The 6th year the fuel was purchased and used: 5%

DOR assumes DOR and ITSD-DOR will need to make form changes and will need to make programming changes to the Missouri Individual Income Tax System (MINITS). DOR also states their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$26,712 (1,008 FTE hours) to make updates.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

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ASSUMPTION (continued)

DOR's Personal Tax section assumes the need for one Revenue Processing Technician I per 4,000 credits claimed. DOR assumes the cost of this additional FTE to be roughly \$39,000 per year.

Oversight assumes DOR's estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2013 could be reduced by roughly \$5,800. Oversight assumes the earliest that the new tax credits would be filed with the Department of Revenue would be January 2013 (FY 2013). Therefore, Oversight will assume DOR will not require the additional FTE in FY 2012 and for only six months out of FY 2013.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's Revenue Processing Technician I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

This proposal defines Processed biomass engineered fiber fuel as any fuel derived from substances produced in this state that were changed from their original form and combined in a manufacturing process in this state of three or more biomass inputs, resulting in a fuel product with a heat value of at least 7,500 BTUs per pound. **Oversight** is unaware of the quantity of this product produced in the state, what the product costs the end user (who actually gets the credit)

ASSUMPTION (continued)

and how quickly additional manufacturers could start producing a qualifying product. There is no annual limit to this program; therefore, Oversight will assume an UNKNOWN amount of tax credits will be issued from this new program. The start date for the credit is for taxable years beginning on or after January 1, 2012; therefore, Oversight will assume the credits may be claimed starting in January 2013, or FY 2013.

Oversight assumes this proposal would have some positive economic benefits to processed biomass engineered fiber fuel producers and users; however, Oversight considers these benefits to be an indirect effect of the proposal and have not reflected them in the fiscal note.

This proposal would reduce Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
<u>Cost - Dept. of Revenue</u>			
Personal Service	\$0	(\$11,454)	(\$23,136)
Fringe Benefits	\$0	(\$5,995)	(\$12,109)
Equipment and Expenses	<u>\$0</u>	<u>(\$5,260)</u>	<u>(\$528)</u>
<u>Total Costs - DOR</u>	\$0	(\$22,709)	(\$35,773)
FTE Change - DOR	0 FTE	1 FTE	1 FTE
<u>Loss - DOR</u>			
Tax credit for using processed biomass engineered fiber fuel - for all taxable years beginning on or after 1/1/2012	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>(Unknown greater than \$22,709)</u>	<u>(Unknown greater than \$35,773)</u>
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small business owners who consumer or produce biomass engineered fiber fuel may receive a positive fiscal impact from this proposal.

FISCAL DESCRIPTION

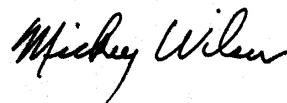
Beginning January 1, 2012, this bill authorizes an income tax credit for any taxpayer who uses "processed biomass engineered fiber fuel" which is defined as any fuel derived from substances produced in this state that were changed from their original form and combined in a manufacturing process in this state of three or more biomass inputs, resulting in a fuel product with a heat value of at least 7,500 British Thermal Units (BTUs) per pound. The credit will be 30% of the purchased price of the fuel for the first year; 25% the second year; 20% the third year; 15% the fourth year; 10% the fifth year; and 5% the sixth year. The credit is not refundable and cannot be transferred, but can be carried forward for four years.

The provisions of the bill will expire December 31 six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Budget and Planning
Department of Agriculture
Department of Revenue
Office of the Secretary of State



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Mickey Wilson, CPA
Director
January 31, 2011

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